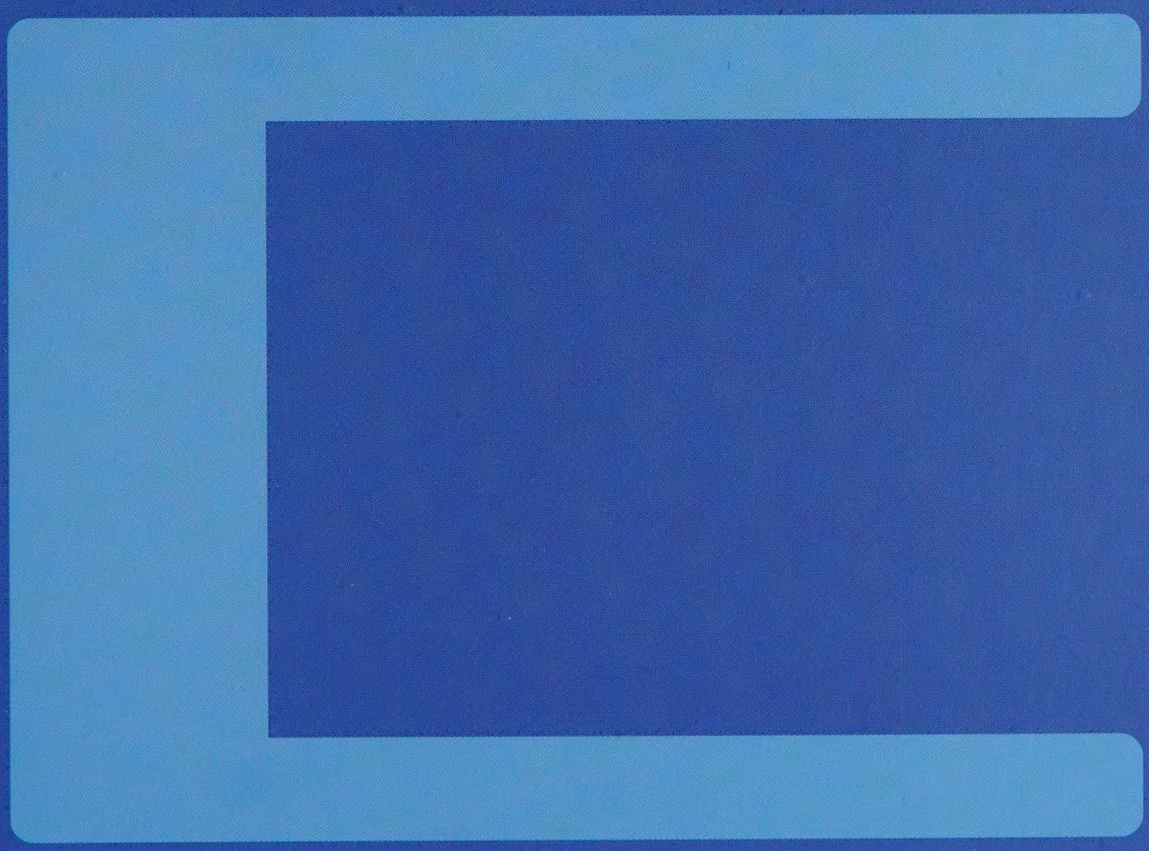
AR66

Winspear Business Reference Library
University of Alberta
1-18 Business Building
Edmonton, Alberta T6G 2R6

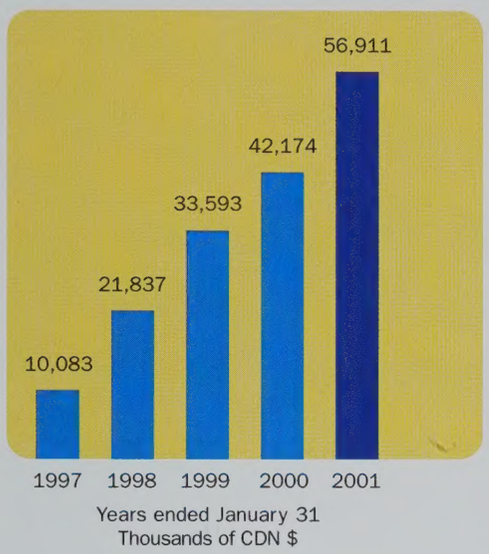
Enterprise Application Integration and Beyond



DataMirror Corporation
Annual Report 2001
www.datamirror.com

DataMirror Corporation (Nasdaq: DMCX; TSE: DMC) delivers solutions that allow customers to integrate their data across their enterprises. DataMirror's comprehensive family of products includes advanced real-time capture, transform and flow (CTF) technology that gives customers the instant access, integration and availability they demand today across all computers in their business.

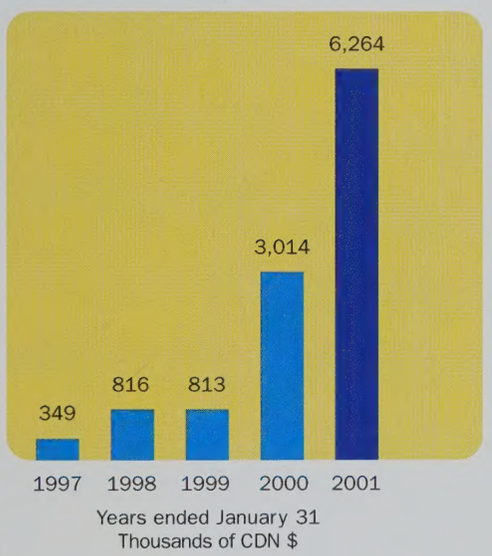
Over 1,400 companies use DataMirror software to integrate their data. Real-time data drives all business. DataMirror is headquartered in Toronto, Canada, and has offices worldwide. DataMirror has been ranked in the Deloitte and Touche Fast 500 as one of the fastest growing technology companies in North America.



Revenue

Revenue growth
since fiscal 1997

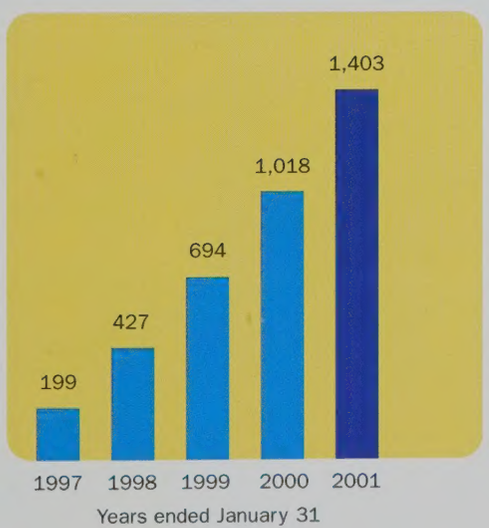
464%



EBITDA

EBITDA growth
since fiscal 1997

1,695%



Customers

Customer growth
since fiscal 1997

605%



w o r k
f a s t e r

w o r k
s m a r t e r

Though you may not see our software working, chances are you or someone you know benefits directly from our technology. Every day, DataMirror software solutions work behind the scenes to deliver real-time flows of data to the people who need it. DataMirror enterprise application integration and resiliency solutions keep data flowing from one end of the enterprise to the other. Every day, our proven technology helps people work faster and work smarter.



real-time data drives all business

Gaining access to the data you need to do business is only half of the challenge. When serving customers via the Internet or traditional channels, the speed at which people and applications can access the right data is important. A critical question is how fresh or current the data is when it arrives at its destination. The need to send data as quickly as possible is fundamental to e-Business. Moreover, the e-Business model is transforming the expectations of end users and decision makers in other areas of the business such as customer relationship management and business intelligence. The general movement in IT is toward the real-time data flow model. There is a clear need for data integration technology that can help companies build a resilient and data-rich infrastructure to support the next generation of real-time business systems.



b a c k t o
b a s i c s

At DataMirror, we see a "flight to quality" by customers who not only want solid technology but also the quality product support and professional services to back it up. DataMirror is committed to providing customers with the knowledgeable people, sound methodology and expert execution needed to make the DataMirror implementation a success. If any of our over 1,400 customers has a problem, we act swiftly and do whatever is necessary to remedy the situation. Sounds basic, right? Nevertheless, more and more companies are differentiating and choosing DataMirror based on the world famous customer experience we provide – from on-line and telephone support, to professional services and our annual user conference. And of course, we also offer the proven high performance software solutions our customers have come to expect. DataMirror: real people, real software and real solutions for the world we live in.



q & a with the chair

Fiscal 2001 was a year of landmark achievements for DataMirror. The Company successfully completed the acquisition of assets of leading enterprise application integration vendor Constellar Corporation and significantly strengthened its position in the growing market for enterprise application integration and resiliency solutions. The Company's global customer base expanded to over 1,400 companies and DataMirror common shares began trading on the Nasdaq National Market. Throughout the year, DataMirror and its solutions received wide industry acclaim including recognition in the Deloitte and Touche Fast 500 as one of the fastest growing technology companies in North America.

DataMirror also took steps to expand its market penetration in the Oracle, IBM, Microsoft and Java economies and to position the Company for future growth. Nigel Stokes, Chairman, President and CEO, discusses DataMirror's achievements, market focus and the road ahead.

Nigel, can you begin by briefly discussing DataMirror's financial results and accomplishments for the year?

Revenue for the year was $56,911,000, an increase of 35% over the Company's revenue for the previous fiscal year of $42,174,000. Net income for the year was $4,708,000 or $0.41 per share, compared to a loss of $1,429,000 in the previous fiscal year. Income excluding the equity loss and dilution gain resulting from the Company's investment in PointBase, Inc. was $3,231,000, an improvement of $3,367,000 over the 2000 fiscal year. The Company's overall headcount increased to 319 employees as we continued to recruit the talent required to build a strong global team and drive our future success.

In terms of accomplishments, the Company made important customer-centric transitions in fiscal 2001 to ensure that customers continue to choose our solutions over those of our competitors. DataMirror restructured its global product support team, doubled support staff and reduced response times by 80% through new web site capabilities. We also significantly expanded DataMirror's professional services program to offer consulting, education and thought leadership in the enterprise application integration and resiliency space.

The acquisition of assets of leading enterprise application integration vendor Constellar Corporation has allowed us to extend the reach of our core integration business and improve and broaden our product offerings. The DataMirror Constellar Hub product is a powerful solution for integrating any number of diverse applications including SAP, PeopleSoft, Siebel and Oracle Applications. Our ongoing focus will be on addressing the integration needs of the leading ERP and CRM application markets.

We believe massive increases in data volumes, mixed-system computing environments, growing IT complexity and the need for real-time data flows has created a growing opportunity for our integration technology well into the 2000s.

What is the business outlook for the company in Fiscal 2002?

In the current economic climate, we remain optimistic that more and more customers will see how our award-winning technology can save them time and money while helping them optimize customer relationships and maximize revenue opportunities. Now more than ever, companies are looking for cost-effective integration technologies like ours that deliver real value by allowing them to innovate without a lot of up-front investment and business disruption. We have confidence in the outlook for the Company and our award-winning solutions in fiscal 2002 and beyond.

What are the key markets DataMirror plans to focus on in the next year?

Over the last year, DataMirror has taken a number of steps to address the growing enterprise application integration (EAI) market. According to analysts, the EAI market is expected to be the fastest growing technology sector over the next few years. This rapid growth in EAI is being driven by the adoption of new e-Business and CRM applications which need to communicate and interact with each other. While the 1980s and 1990s were about database products and ERP applications, the business focus in the 2000s will be on integrating databases and applications into a real-time network for business insight.

More and more companies are realizing that without integration business gets complicated. A major key to achieving 21st century competitiveness is enterprise application integration or the ability to seamlessly integrate different applications, computing systems and data sources into a powerful data-rich infrastructure.

DataMirror is a pure integration company that offers real integration solutions and services that help customers solve their business and application integration problems. DataMirror technology helps customers build a scalable and resilient EAI infrastructure and empowers employees and business partners alike with real-time flows of information.

DataMirror is working to establish itself as a resource for technical professionals and a one-stop destination for infrastructure solutions and best practices. Through EAI-focused product enhancements such as support for IBM MQSeries as well as the acquisition of the assets of EAI vendor Constellar Corporation, we believe DataMirror is well positioned to provide customers with a proven EAI infrastructure to support their e-Business, CRM and business intelligence initiatives.

What other trends do you see developing in the information technology market over the next one to three years? How are you positioning your technology to address these trends?

Despite recent reversals of fortune for many dot-com companies, the Internet and e-Business are here to stay. Organizations across all industries continue to invest in e-Business technologies to boost productivity, streamline operations and gain competitive advantage. We believe the Internet will continue to be a key driver of business growth and new business creation. Now that all the dot-com hype has died down, the real work begins. Companies must focus on building a sound business model and an IT infrastructure that supports e-Business growth as one of a number of viable channels to market.

We see opportunities for our technology in helping businesses to rapidly and cost-effectively build e-Business applications. To build an e-Business site, you often can't start from scratch with entirely new systems and applications. You need to find a way to leverage existing systems, applications and databases that have been acquired over time. Making maximum use of the IT resources you already have can accelerate time to market.

Organizations are discovering that e-Business and enterprise application integration often go hand in hand. Why reinvent the wheel when you can reinvest in existing hardware and software? Companies that leverage their existing systems through a single integrated approach to EAI and e-Business can get a considerable head start. They also gain the long-term assurance that they can quickly adapt as e-Business initiatives and demands change and grow. Customers today also want the freedom to choose the technology that drives their business without any obstacles to interoperability. Data integration middleware like DataMirror's is a strategic move for businesses seeking to modernize or extend their computing infrastructures while leveraging existing systems.

We also see enormous growth potential in the wireless market. The business use of mobile phones, PDAs and handheld devices continues to expand. In order for these wireless productivity tools to realize their full potential, databases residing on smart devices will also need to be integrated with corporate information systems.

DataMirror remains well-positioned to address the wireless market through its relationship with California-based PointBase, Inc. PointBase has developed a Java-based database tool for managing large amounts of data on handheld wireless devices and Internet appliances. DataMirror integration technology will allow corporations to integrate their data assets from mainframes to mobiles and extend the reach of their information to new classes of mobile employees.

Can you comment on the integration of the Constellar and DataMirror businesses?

Sure. Since completing the acquisition of assets of Constellar Corporation, DataMirror has undertaken a number of initiatives to integrate the businesses and to enhance the customer experience for Constellar Hub users. We have been working to improve our support capabilities for the product both in the UK and elsewhere by expanding our consulting teams and by building a new North American support team. We have also been working to enhance the Constellar Hub product itself on a number of fronts.

In addition to the development of a number of customer requested enhancements, DataMirror is actively working to develop additional application interfaces to extend the Hub's core functionality and to enhance the event-driven capabilities of the product. Another key initiative is the integration of the Hub tool with DataMirror's complete family of Transformation Server real-time data integration products that will enable real-time data feeds into and out of the Hub. The overall goal is to provide our customers with a more powerful and useable EAI solution.

The DataMirror and Constellar teams are pleased to be joining forces. Their collective efforts will create new market offerings and synergies for both businesses. The combined company looks forward to continuing to deliver innovative products and world class customer experiences.

Thank you, Nigel. Do you have anything you want to add?

I'd just like to thank all our shareholders, customers, partners and employees for their continued support of the Company and its vision. Moving forward, we will continue to build on our successes and accomplishments. I look forward to meeting the challenges and opportunities of the new fiscal year in which you will see DataMirror pursue new markets, extend its thought leadership in the IT industry, and focus its total efforts on achieving consistent results and solid growth.

technically speaking... the solutions

Enterprise Application Integration

To achieve 21st century competitiveness, a company's core business applications such as Enterprise Resource Planning (ERP), Supply Chain Management (SCM) and legacy systems must be seamlessly integrated with applications that provide outward-facing connectivity to suppliers, partners and customers, such as Customer Relationship Management (CRM), e-mail systems and web-based applications. DataMirror solutions empower customers to rapidly integrate systems, application and data components into a powerful, data-rich and resilient infrastructure. By enabling companies to build a seamless IT environment, DataMirror software helps customers accelerate application integration, reduce programming costs and achieve new operational efficiencies.

Customer Relationship Management

Corporate and customer data buried in many incompatible systems is essentially worthless unless it can be easily and quickly accessed by all who need it including customer service reps and call center employees. Only with real-time, bi-directional data integration technology can companies truly realize the full potential of CRM. DataMirror capture, transform and flow (CTF) data integration software empowers users with real-time customer data such as inventory levels, delivery schedules and customer status that would otherwise be difficult to access. DataMirror solutions ensure that computing systems and databases across the business are fully integrated into the CRM backbone. They provide the end-to-end data integration and out-of-the-box flexibility companies need to gain a 360-degree view of customer relationships.

e-Business

e-Business involves achieving the integration required to let customers, employees and partners transact directly with your corporate systems. This is accomplished by linking transaction systems and databases that drive the business – order entry, inventory, accounting and purchasing – with web sites and e-Business applications. e-Business and integration go hand-in-hand. DataMirror software provides the infrastructure required to enable real-time, bi-directional data flows, integration and transformation between multiple systems, enterprise databases and data-driven e-Business applications. DataMirror resiliency solutions ensure that your e-Business and operational systems are thoroughly backed up and available 24/7 regardless of planned or unplanned downtime.

Business Intelligence

As the demand for information across the enterprise grows, companies require real-time integration solutions that allow them to capture, transform and flow corporate data from many incompatible sources for business intelligence. DataMirror solutions are ideal for loading and replenishing data warehouses, web houses and data marts either periodically or in real-time. They provide users with the most up-to-date data for business intelligence and real-time analytics. Powerful data selection and transformation routines ensure that the data warehouse is populated with clean data in a format conducive to query and analysis. Users can translate values, derive new calculated fields, join tables at either the publisher or the subscriber for derived expressions and more. Whether data is integrated in real-time or periodically, only changed data is captured and transferred from the publisher systems into the data warehouse, eliminating redundant data transfer and improving operational efficiency.

Data Resiliency

The Internet has given rise to a new breed of customer that demands real-time 24/7 access to corporate information systems and customer-facing applications. Data resiliency, or the ability to ensure that critical data and applications are thoroughly backed up and continuously available, is a corporate imperative. System downtime may result in lost customer loyalty, operational inefficiencies and supply chain disruptions. High performance DataMirror resiliency solutions mirror data and objects in real-time from primary to recovery systems to ensure high speed operational switching and uninterrupted access during planned or unplanned downtime. DataMirror resiliency software, backed by DataMirror's proven high availability methodology, ensures that companies can keep their systems and applications up and running around the clock.

Mobile and Wireless Data Applications

Wireless technology empowers mobile professionals to access the up-to-the-second corporate and customer data they need to do business in today's fiercely competitive economy. Real-time data integration, synchronization and delivery is critical to take advantage of available connectivity, maximize productivity and ensure the integrity of business transactions in the wireless world. DataMirror data integration software can integrate and synchronize both wire-line and wireless data between corporate information systems and mobile employees via the web or PointBase-equipped mobile devices such as smart-phones, PDAs and handheld computers. PointBase is a small-footprint, portable Java database designed to run on servers and to be embedded in Internet and wireless devices.

behind the scenes . . . the products

DataMirror Transformation Server

Transformation Server is data integration software that captures, transforms and flows data in real-time among multiple databases. Supported databases include DB2 UDB, Oracle, Microsoft SQL Server and Sybase across UNIX, Linux, Microsoft Windows NT/2000, IBM OS/400 and OS/390. Flat file integration is also supported. Transformation Server's real-time, bi-directional integration capabilities make it ideal for enabling a range of applications including e-Business, business intelligence, CRM, enterprise application integration, high availability and other distributed data applications. Transformation Server is easy to implement and requires no programming changes to applications or databases. Full publisher and subscriber functionality is provided through Enterprise Administrator, a Java-based, web-enabled graphical user interface for easily configuring and managing integration across all supported systems.

DataMirror iTransmit

iTransmit is a wireless version of Enterprise Administrator that takes the Transformation Server customer experience to new levels of convenience and efficiency. It allows any IT administrator with a micro-browser equipped wireless device to access, monitor and manage data integration between multiple databases and computing platforms from anywhere and at anytime. iTransmit enables users to select subscriptions, view the integration status, check logs for error messages and perform simple functions such as starting and stopping data integration. Using iTransmit over a wireless Internet connection, users can troubleshoot issues to understand what happened, restart integration or take another course of action.

DataMirror® Constellar Hub™

DataMirror Constellar Hub is an Oracle-based enterprise application integration tool that enables the movement, transformation and integration of data between heterogeneous environments from a central point of control. With DataMirror Constellar Hub, organizations have the power to rapidly integrate a broad range of applications. DataMirror Constellar Hub includes connectors to IBM MQSeries, interfaces for PeopleSoft and Oracle Applications, and certified SAP connectivity. The solution incorporates support for XML, HTTP and FTP to ensure that e-Business transactions are readily integrated with the company's other core systems including ERP and CRM applications. DataMirror Constellar Hub enables customers to accelerate application integration and reduce programming costs.

DataMirror® iDeliver™

iDeliver is a data delivery solution that allows organizations to filter and publish corporate data securely over intranets, extranets or the Internet so that authorized users with web access can subscribe to the data. iDeliver utilizes Transformation Server software to capture data from a wide variety of corporate data sources including DB2 UDB, Oracle, Microsoft SQL Server and Sybase. Once the data is captured, iDeliver allows mobile employees, partners or customers to select, transform and integrate relevant information into business/desktop applications or databases on their systems including Microsoft Outlook and Excel. Business applications of iDeliver include mobile workforce applications, sales force automation and CRM.

DataMirror® High Availability Suite™

High Availability Suite is a single integrated product for highly available IBM iSeries (AS/400) business operations. It captures iSeries objects and database transactions from production systems and mirrors them in real-time to one or more recovery iSeries. High Availability Suite can detect primary system failure and invoke operational switching to maximize system uptime. It features an advanced match-merge architecture that enables real-time auto-registration. Data and object transaction streams are matched and merged in real-time before being applied to the recovery system database. Auto-registration, along with sync check, commitment control and other integrity checks, provides the highest levels of data integrity. DataMirror's exclusive XtremeCache™ technology optimizes the flow of data into and out of a high speed cache to help customers achieve zero latency for system backup and recovery.

DataMirror® iCluster™

iCluster software is for IBM iSeries customers who require uninterrupted 24/7 business operations. iCluster includes an intuitive graphical user interface to define nodes in a cluster, determine what data and other critical objects are mirrored to specific nodes and monitor the entire cluster from a single station. It also handles the data and object mirroring requirements of clustered high availability environments. Users are able to define cluster groups, initiate cluster operations and set cluster security levels. iCluster supports IBM's ClusterProven™ standard for applications resiliency. iCluster features breakthrough XtremeCache™ technology that optimizes the flow of data into and out of a high speed cache.

Fiscal 2001 Financials

Management's discussion and analysis of financial condition and results of operations

The following discussion contains forward-looking statements that are subject to significant risks and uncertainties. Forward-looking statements include statements of plans, objectives, strategies and expectations, and may be identified by the use of words such as (but not limited to) "anticipate", "believe", "estimate" and "expect" and similar expressions. Forward-looking statements are made pursuant to the "safe harbor" provisions of the United States Private Securities Litigation Reform Act of 1995. Numerous risks and uncertainties may affect DataMirror's operating results and could cause DataMirror's actual results to differ materially from historical results or any forward-looking statements contained herein. These risks and uncertainties include, but are not limited to, the following: variability of quarterly operating results; dependence upon the continued growth and success of DataMirror's software products; competition; rapid technological change and new product introductions; dependence upon continued growth in the database and enterprise data integration markets; dependence upon relationships with complementary vendors and distribution channels; the ability to recruit and retain key personnel; risks of international operations, including currency exchange rate fluctuations and global economic conditions; possible software errors or defects; possible infringement claims by third parties; and other factors discussed in the Company's Annual Information Form and other periodic filings with the United States Securities and Exchange Commission and other regulatory authorities. The Company disclaims and does not assume any obligation to update forward-looking statements.

Overview

The following discussion should be read in conjunction with DataMirror Corporation's audited Consolidated Financial Statements presented in accordance with Canadian generally accepted accounting principles ("Canadian GAAP"), which are in all material respects in accordance with accounting principles generally accepted in the United States ("US GAAP"), except as disclosed in note 17 of the audited Consolidated Financial Statements. All amounts are stated in Canadian dollars unless otherwise noted.

DataMirror Corporation (together with its subsidiaries referred to as "DataMirror" or the "Company") designs, develops and markets software products that capture, transform and flow data between enterprise databases. The Company's software products provide business data integration, giving its customers the ability to keep corporate data integrated, distributed and available within enterprises and across the Internet. The Company's products are suited to such business applications as building and replenishing data warehouses, data distribution and workload balancing, e-commerce and the integration of e-Business applications with operational and legacy systems, enterprise application integration ("EAI") and back-up and recovery applications. The Company was originally incorporated in November 1993 as a software research and development firm. The Company's first product, now called Transformation Server, was launched in October 1994 leading to the first licence sale in early 1995. Since that time the functionality of Transformation Server has been extended to become a cross-platform transformational integration solution. The Company has released new versions of its Transformation Server software that enable the capture, transformation and flow of data among a variety of mid-range servers, mainframe processors and software databases. Supported databases now include DB2 running on IBM iSeries ("AS/400") and OS/390; Oracle running on UNIX, Linux and Windows NT/2000; Sybase running on UNIX and Linux; Microsoft SQL Server and PointBase Java databases.

The Company's second major product, High Availability Suite for IBM AS/400, was released in November 1998. High Availability Suite is an integrated software suite offering AS/400 back-up and recovery protection for customers. As an integrated software suite, High Availability Suite allows a customer to purchase one product with the ability to capture AS/400 objects and

database transactions from primary systems and mirror them in real-time to one or more secondary AS/400s; to detect primary system failure and invoke operational switching to enable continuous availability; and to monitor the entire process. High Availability Suite was complemented and enhanced in mid 1999 with the introduction of DataMirror iCluster software, a high availability cluster management solution for a 'cluster' or integrated network of IBM AS/400 systems.

As the result of the acquisition of the technology and certain other assets and liabilities of Constellar Corporation and its UK subsidiary Constellar Limited ("Constellar") completed in September 2000, the Company has added a third major product, DataMirror Constellar Hub. Constellar Hub is an EAI solution which enables data movement, transformation and integration between a wide variety of mixed system environments. It supports over 40 data types including real-time, batch and message-oriented systems. Constellar Hub options include pre-built interfaces for Peoplesoft and Oracle Applications and connectors to MQSeries and SAP.

The Company's revenue is derived primarily from sales of licences for its software products. Licence revenue in the past has been heavily dependent on sales of Transformation Server and High Availability Suite software for use in connection with IBM AS/400 platforms. The Company expects that software licence revenues will continue to account for a substantial portion of its revenues for the foreseeable future. During fiscal 2001, 24.7% of the Company's revenue was derived from customer software maintenance and support contracts, compared to 20.3% of revenue in fiscal 2000. The Company expects that software maintenance and support contracts will continue to account for a growing percentage of overall revenue in the future. Revenue from services, which includes consulting, training and other services, accounted for 13.7% of revenue during fiscal 2001, compared to 10.9% in fiscal 2000. The Company also expects that services revenue will continue to grow as a percentage of overall revenue.

The Company continues to invest in the enhancement of its products and in broadening the functionality of its products to support those database technologies and hardware platforms that it considers will be most significant in the future and for which it believes it may establish a competitive advantage, with the objective of increasing its share of the market for software products that provide business data integration and EAI solutions. During its fiscal year ended January 31, 2001, the Company announced the release of two new products:

iTransmit, a wireless version of DataMirror's Enterprise Administrator for the Transformation Server family of products that allows a user to operationally manage the data replication network from micro-browser equipped wireless devices connected to the Internet; and

XtremeCache, a technology exclusive to DataMirror iCluster and High Availability Suite that optimizes the flow of data into and out of a high speed software cache. XtremeCache is a breakthrough enhancement that enhances business availability and system back-up and recovery capabilities.

In addition, during fiscal 2001 the Company commercially released new and enhanced versions of a number of existing products, including:

Transformation Server Version 4.6 for AS/400, enhanced to provide breakthrough features and functionality in the areas of data resiliency and ease-of-use. These new features include alarms and alerts, heartbeat monitoring and auto-discovery;

Enterprise Administrator Version 2.2, an enhanced Java-based graphical user interface (GUI) for the Transformation Server family of products that allows a user to configure and manage an entire corporate replication network from a single point of administration. MetaCapture, a new Java-based feature of Enterprise Administrator Version 2.2, allows users to view their

entire replication network in a single snapshot and export detailed metadata directly into front-end query and reporting tools or Customer Relationship Management (CRM) applications without custom coding;

Transformation Server for Microsoft SQL Server Version 4.2, an enhanced integration product for Microsoft SQL Server databases on Windows NT/2000 with increased functionality and with increased support for Microsoft Windows 2000 clusters and Microsoft SQL Server 2000;

iDeliver Version 2.0, an enhanced integration product that provides businesses with the ability to filter and publish corporate data securely over intranets, extranets or the Internet with increased functionality so that authorized trading partners with web access can subscribe to the data to more easily fulfil business-to-business data integration needs;

Constellar Hub Version 3.5.1, an enhanced version of DataMirror's Constellar Hub EAI software that enables the movement, transformation and integration of data between heterogeneous environments from a central point of control with enhanced functionality for SAP certified out-of-the-box integration with SAP R/3;

iCluster Version 1.5 for IBM AS/400, an enhanced version of DataMirror's iSeries clustering technology that sets unprecedented system availability beyond 99.999% with increased functionality for IBM MQSeries and ClusterProven™ applications using a real-time point-and-click Java Graphical User Interface; and

High Availability Suite Version 3.5 for IBM AS/400, an enhanced version of DataMirror's integrated product suite for continuous business operations in AS/400 environments with increased functionality for IBM MQSeries and the Integrated File System by leveraging state-of-the-art byte stream file recording introduced into the OS/400 operating system by IBM.

Following mid-range software industry practice, DataMirror's software licence prices vary according to, among other factors, the relative size and processing capability of the source and target central processing units. A typical initial sale consists of at least two licences.

The Company has historically sold primarily on a direct basis to its customers in North America and most of Europe, while also employing indirect sales channels, such as distributors and remarketers in these territories. During fiscal 2001, sales through these indirect sales channels accounted for 33% of revenue, down slightly from 38% in fiscal 2000. In April 2000, the Company opened an office in Hong Kong to establish a direct sales presence in the Asia Pacific market. In Australia, South and Central America and certain European countries the Company sells mainly on an indirect basis through distributors or remarketers who may also provide customer support and service to end users. The Company believes that its long-term success will depend to a large extent on its ability to distribute its products effectively in the global marketplace. The Company intends to focus its distribution efforts on the Americas, Europe and the Asia Pacific region by increasing its direct sales force, expanding alliances with hardware and software vendors and continuing to invest resources to enhance and increase its indirect channels of distribution.

The Company recognizes revenue from product licencing when persuasive evidence of an arrangement exists, the related products are shipped, there are no significant uncertainties surrounding product acceptance, the fees are fixed and determinable and collection of the receivable is reasonably assured. Revenue from software maintenance and support agreements is recognized on a straight-line basis over the term of the related agreements. Revenue from consulting and other software related services is recognized at the time the services are performed.

For fiscal 2001, sales denominated in U.S. dollars and European currencies represented 55.8% and 40.8% of the Company's revenues respectively, while a significant portion of the Company's operating expenses are incurred in Canadian dollars. Accordingly, changes in exchange rates between the Canadian dollar and these foreign currencies can positively or negatively affect the Company's operating results. The Company has a policy of hedging a portion of its foreign currency denominated accounts receivable. However, management recognizes that this policy can provide only a short-term protection against a limited portion of the Company's currency exposure.

Fiscal Year Ended January 31, 2001 Compared to Fiscal Year Ended January 31, 2000

Results of Operations

The following table sets forth certain items from the Company's consolidated statements of income (loss), excluding the effects of the gains or losses resulting from the Company's investment in PointBase, Inc. ("PointBase"), for the years indicated:

For the Years Ended January 31, (In thousands of CDN $)	2001	2000
REVENUE		
Licence	$ 35,040	$ 29,009
Maintenance	14,065	8,562
Services	7,806	4,603
	56,911	42,174
COST OF REVENUE		
Licence	514	379
Maintenance and services	10,637	7,089
	11,151	7,468
GROSS MARGIN	45,760	34,706
OPERATING EXPENSES		
Selling and marketing	23,815	19,549
Research and development	7,742	6,619
General and administration	9,668	7,181
Amortization of intangibles	1,570	1,147
Total operating expenses	42,795	34,496
INCOME FROM OPERATIONS	2,965	210
INVESTMENT INCOME, NET	1,333	286
Operating income before net gain from investment in PointBase, Inc. and income taxes	$ 4,298	$ 496

Revenue

The Company's revenue is derived primarily from the sale of software licences. For the year ended January 31, 2001, licence revenue was $35,040,000 compared to $29,009,000 for the previous fiscal year, an increase of 20.8%. The increase in licence revenue was attributable to an increase in the number of software licences sold during the year as a result of the Company strengthening its sales and marketing efforts and the additional revenue derived from sales of licences of Constellar Hub.

The remainder of the Company's revenue in these periods was attributable to fees for maintenance, support and consulting and other software related services provided by the

Company. Maintenance revenue in fiscal 2001 increased by 64.3% over fiscal 2000 as a result of increased licence sales during fiscal 2001, the renewal of maintenance and support contracts for licence sales completed in prior periods and additional maintenance and support contracts assumed as part of the Constellar acquisition. Service revenue increased by 69.6% in fiscal 2001 due to a general increase in consulting services related to the Company's own products, particularly High Availability Suite, and increased services revenue from Constellar customers.

DataMirror derives most of its sales revenue from international customers with sales outside Canada usually denominated in U.S. dollars or European currencies including pounds sterling, German Deutsche Marks or European Currency Units. The Company's geographical revenue distribution has been as follows:

For the Years Ended January 31,	2001	2000
Canada	3.4%	5.7%
United States	50.0	45.7
United Kingdom	26.8	20.4
Germany	6.9	13.2
Other	12.9	15.0
	100.0%	100.0%

Transaction values for sales of the Company's products have been as large as $1,400,000, although a typical sale ranges from $50,000 to $70,000. No single customer accounted for more than 2.5% of revenue in the year ended January 31, 2001 (1.7% of revenue for fiscal 2000).

Cost of Revenue

Cost of licence revenue consists primarily of duplication, media, packaging and shipping expenses. For fiscal 2001, costs of licence revenue were $514,000 (1.5% of licence revenue) compared to $379,000 (1.3% of licence revenue) for fiscal 2000.

Costs of maintenance and service revenue consist primarily of the salary and related costs of providing those services. For fiscal 2001, costs of maintenance and service revenue were $10,637,000 (48.6% of maintenance and service revenue) compared to $7,089,000 (53.8% of maintenance and service revenue) for fiscal 2000. The gross margin on maintenance and service revenue increased as a result of the expansion of the Company's maintenance and service revenues with an increase in the efficiency with which these services were delivered.

Operating Expenses

Selling and Marketing. Selling and marketing expenses include expenses for sales commissions, salaries, advertising, trade shows, promotional materials and other selling and marketing related expenses. For the year ended January 31, 2001, these expenses totalled $23,815,000 (41.8% of revenue) as compared to $19,549,000 (46.4% of revenue) for fiscal 2000. The increase in selling and marketing expenses is attributable to the expansion of the Company's direct sales force, the impact of opening the Company's Hong Kong subsidiary, selling and marketing costs attributable to the Constellar acquisition and the continued investment in new advertising and marketing plans undertaken for the purpose of establishing greater product identification and enhancing the Company's position in the marketplace. Management expects selling and marketing expenses to continue to increase as the Company expands its sales and marketing activities.

Research and Development. It is the Company's policy to expense research and development costs unless a project meets the criteria under Canadian generally accepted accounting principles for deferral and amortization. The Company has not deferred any research and

development costs to date. Research and development expenses include only salaries and other direct costs associated with the development of new products and are net of related investment tax credits. Research and development expenses (before investment tax credits) were $8,167,000 (14.4% of revenue) for the year ended January 31, 2001 compared to $6,766,000 (16.0% of revenue) for the prior fiscal year. The increase in research and development expenses is attributable to an increase in the number of research and development employees and additional research and development costs associated with the Company's acquisition of assets from Constellar. Because of the need to enhance existing products and develop new products, the Company has invested, and continues to invest, substantial resources in its product development efforts.

General and Administration. General and administration expenses consist primarily of administrative salaries, rent, recruiting costs and professional fees. For the year ended January 31, 2001, general and administration expenses were $9,668,000 (17.0% of revenue) compared to $7,181,000 (17.0% of revenue) for fiscal 2000. This increase of 34.6% resulted mostly from higher administrative costs due to expanded facilities at the Company's head office, the costs associated with the acquisition of assets from Constellar and additional overhead costs to support increased levels of sales and research and development activity.

Amortization of Intangibles. Amortization of intangibles consists of the amortization of goodwill and technology. For the year ended January 31, 2001, amortization of intangibles was $1,570,000 compared to $1,147,000 for the previous fiscal year. The increase of $423,000 in fiscal 2001 is related to the amortization of the technology acquired as part of the Constellar acquisition.

Investment Income, Net

Investment income, net includes interest on short-term investments and other investment income net of interest expense on long-term liabilities and lease obligations. In fiscal 2001, investment income, net increased by $1,047,000 over the prior year as a result of interest income earned on the additional funds raised by the Company's share offering completed in April, 2000.

Gain (Loss) from Investment in PointBase

The dilution gain from PointBase represents the increase in the Company's pro-rata share in the assets of PointBase resulting from PointBase raising funds from other investors. For the year ended January 31, 2001, the Company recorded a dilution gain from its equity investment in PointBase of $6,186,000 compared to $2,327,000 in the prior year. The increase in the dilution gain was the result of increased levels of funding raised by PointBase from other investors during the year.

The equity loss from PointBase represents the Company's pro-rata share of the operating losses of PointBase. During fiscal 2001 the Company recorded an equity loss from its investment in PointBase of $4,709,000 compared to $3,620,000 in the prior year. This increase was the result of an increase in operating losses incurred by PointBase during the fiscal year, offset by a reduction in the Company's ownership percentage.

Income Tax Expense

For the year ended January 31, 2001, the Company had profitable operations in North America and some European tax jurisdictions, and an operating loss before income taxes in Asia Pacific and some other European tax jurisdictions. In the year ended January 31, 2000, the Company had profitable operations in North America and operating losses in its European operations. The income tax benefit of operating losses in European jurisdictions where the Company continues to incur operating losses has not been reflected in the income tax provision in either year. The benefit of the prior year's losses in the European tax jurisdictions in which the Company had profitable operations in fiscal 2001 has been recognized in the current fiscal year. In fiscal 2001,

an income tax provision of $1,067,000 has been recorded against consolidated income before income taxes. In fiscal 2000, an income tax provision of $632,000 was recorded against consolidated loss from operations. As a result of the Company's Asia Pacific and European operating losses, the Company has available a loss carry-forward of approximately $3,758,000 which has not been reflected in its consolidated financial statements. These losses are available to claim against future taxable income in the applicable tax jurisdictions.

Operating Segments

The Company operates in two reportable segments, North America and Europe. In the year ended January 31, 2001, the North American segment (which includes the Company's Asia Pacific operations) had an operating loss of $130,000 compared to operating income of $1,688,000 in fiscal 2000. This decrease in profitability was due to several factors including the costs associated with opening the Hong Kong office, the amortization of the Constellar technology, operating losses in the Constellar North American operations and the economic downturn experienced in North America in the fourth quarter of fiscal 2001. The European segment had operating income of $3,095,000 in fiscal 2001 compared to an operating loss of $1,478,000 the previous fiscal year. In fiscal 2000, the European operations incurred substantially all of this loss in the first half of the year. A reorganization of the European operations was commenced in April 1999, and the segment operated at a break-even level for the last half of fiscal 2000. This improvement in operating profitability continued into fiscal 2001, and was augmented by operating profits in the European Constellar operations.

Acquisitions and Investments

Effective September 1, 2000 the Company acquired certain assets and liabilities of Constellar, a company engaged in the business of developing and marketing EAI computer software products with offices in Redwood Shores, California and London, England. The acquisition has been accounted for under the purchase method, and the results of the continuing operations of the Constellar business acquired by DataMirror are included from the date of acquisition. A total of US $5 million in payments relating to the Constellar acquisition were deferred over 3 years, and certain of these payments are contingent on revenues realized by DataMirror from the acquired business. See note 16 to the Consolidated Financial Statements.

The Company has participated in several rounds of financing of PointBase, a California-based software developer and marketer. PointBase has developed an embedded, scaleable relational database written completely in Java. The PointBase database is deployable on multiple platforms, from small footprint embedded devices for mobile clients and wireless devices, to Java application servers. Under a co-development agreement with PointBase, the Company will support the integration of PointBase data to and from other databases.

In February 1999, the Company along with two Silicon Valley venture capital firms participated in the third financing round for PointBase. Following the February 1999 financing, DataMirror held the largest investment position in PointBase with approximately 42% ownership.

In September and October 1999, PointBase engaged in another round of financing in which the Company did not participate. The financing decreased the Company's approximate ownership percentage of PointBase to 29%. As a result of this transaction, the Company recognized a dilution gain of $2,327,000, which represents the increase in the amount of the Company's pro rata share of the net assets of PointBase.

In June and August 2000, PointBase engaged in another round of financing in which the Company invested an additional $5,893,000, representing 16% of the funds raised by PointBase in this financing. DataMirror's total cash investment in PointBase, including this round of financing, amounts to $10,603,000. The financing decreased the Company's approximate

ownership percentage of PointBase to 25%. As a result of this transaction, the Company recognized a dilution gain of $6,186,000, which represents the increase in the amount of the Company's pro rata share of the net assets of PointBase.

Management believes the Company's investment in PointBase currently has a value that exceeds its carrying value of $10,787,000. Based on the value at which the June and August 2000 financing of PointBase was completed, the value of the Company's 25% ownership stake would have been slightly more than $34,000,000. However, as PointBase is currently privately owned, there is no readily available market for its shares and there can be no assurance that any such market for the shares of PointBase will develop in the future or that the Company will be able to realize this or any other value from its investment in PointBase.

Management of the Company expects it will closely examine possible acquisitions of complementary businesses and technologies. The Company anticipates that, if it were to make any such acquisitions, they would be focused on building the Company's direct channels of distribution and acquiring companies which develop and market software products which are complementary to the Company's own software products. The consideration and completion of possible acquisitions may divert significant management time and other resources, including financial resources, of the Company.

Quarterly Results of Operations

The following table sets forth certain unaudited information for each of the eight most recent quarters ended January 31, 2001. The information has been derived from the Company's unaudited Consolidated Financial Statements that, in management's opinion, have been prepared on a basis consistent with the audited Consolidated Financial Statements contained elsewhere in this Annual Report. Past performance is not a guarantee of future performance, and this information is not necessarily indicative of results for any future period.

For the Year Ended January 31, 2001
(In thousands of CDN dollars, except per share data - Unaudited)

	Apr. 30	July 31	Oct. 31	Jan. 31
Total revenue	$ 11,349	$ 13,097	$ 16,211	$ 16,254
Net income (loss)	$ (408)	$ 4,947	$ 904	$ (735)
Basic earnings (loss) per share	$ (0.04)	$ 0.43	$ 0.08	$ (0.06)
Fully diluted earnings (loss) per share	$ (0.04)	$ 0.40	$ 0.08	$ (0.06)
Weighted average number of shares outstanding (000's)	10,603	11,576	11,632	11,624

For the Year Ended January 31, 2000
(In thousands of CDN dollars, except per share data - Unaudited)

	Apr. 30	July 31	Oct. 31	Jan. 31
Total revenue	$ 8,086	$ 10,144	$ 11,358	$ 12,586
Net income (loss)	$ (2,849)	$ (898)	$ 2,209	$ 109
Basic earnings (loss) per share	$ (0.28)	$ (0.09)	$ 0.22	$ 0.01
Fully diluted earnings (loss) per share	$ (0.28)	$ (0.09)	$ 0.20	$ 0.01
Weighted average number of shares outstanding (000's)	10,248	10,188	10,168	10,152

Liquidity and Capital Resources

Since its inception, the Company has financed its cash requirements from the sale of equity securities, funds provided by shareholders, bank lines of credit, long-term debt and capital lease financing. In December 1996, the Company completed an initial public offering of 2,000,000

common shares for net proceeds of $9,377,000, and in September 1997 raised net proceeds of $15,721,000 through the issue of 1,600,000 special warrants (subsequently converted into 1,600,000 common shares). In April 2000, the Company raised net proceeds of $33,016,000 through the issuance of 1,305,000 common shares.

As at January 31, 2001 the Company had cash and cash equivalents of $28,205,000, compared to $10,219,000 at the end of fiscal 2000. The Company had working capital of $35,606,000 at January 31, 2001 compared to $13,774,000 at January 31, 2000. These increases were primarily due to the common share financing completed in April 2000 as well as increased cash flow from operations. For the year ended January 31, 2001, cash flow from operations was $3,461,000, an increase of $2,947,000 from fiscal 2000. The Company's investing activities have consisted primarily of purchases of capital assets, its investments in PointBase and the acquisition of the Constellar technology and other assets. During fiscal 2001, capital expenditures of $1,134,000 ($956,000 in fiscal 2000) were financed internally and a further $185,000 ($239,000 in fiscal 2000) were financed under a capital lease facility with IBM Canada Limited. Capital assets acquired were primarily computer hardware and software utilized in research and development activities. The Company expects that its capital expenditures will increase in support of higher levels of research and development activities and as its sales and administration employee base grows. Financing activities during the year included repayments of long-term liabilities, capital lease payments and share capital transactions. During the fiscal year the Company used $2,070,000 ($1,549,000 in fiscal 2000) in cash to repurchase its common shares under a normal course issuer bid and raised an additional $1,190,000 ($614,000 in fiscal 2000) through the issuance of common shares pursuant to the Company's stock option plans.

The Company has available short-term bank credit facilities amounting to approximately $3,329,000. At January 31, 2001 there was no outstanding indebtedness under these credit facilities. Management believes that cash and short-term investments together with cash flow from operations will be adequate to fund the Company's short-term financial requirements.

Outlook

The Company will continue to pursue its strategy of developing and marketing software solutions that allow for the efficient integration, transformation and flow of data among similar or different hardware platforms and database technologies. More enterprises are expected to recognize the importance of managing data for business intelligence, back-up and recovery and e-commerce applications. To establish and maintain useful databases for these purposes, data must be captured, transformed and flowed from the source databases that generate data (for example production databases) to separate databases such as data warehouses, web servers or copies maintained for back-up and recovery applications. The proliferation and enhancement of wireless devices has broadened the need for integrated data solutions. Key processes of data transformation, synchronization and replenishment need to be run continuously to consolidate and update critical decision-making data. High availability software provides back-up and recovery in the event of planned or unexpected system outages. The Company's software products are designed to help customers operate these key processes on an ongoing basis.

Some of the key growth issues the Company faces include building and managing its direct and indirect distribution channels, increasing its marketing efforts to enhance general market awareness of its products, continuing to improve the efficiency and functionality of its existing products, introducing new products, hiring quality people and maintaining adequate management reporting and information systems. The Company continues to invest in these areas in order to achieve its growth objectives.

The Company continues to devote development resources to providing e-Business infrastructure and EAI solutions for its customers as part of DataMirror's Internet and EAI strategy. The Company is working on new software products that will provide for greater resiliency and

redundancy of systems and databases using High Availability Suite and Transformation Server functionality as well as easier integration of legacy and best-of-breed enterprise applications. The Company expects to leverage the real-time data flow capabilities of Transformation Server by providing out-of-the-box integration with Constellar Hub. DataMirror intends to continue to broaden and strengthen Transformation Server's reach by introducing new features and support for popular databases such as DB2 UDB and PointBase on UNIX and Windows NT/2000. The Company also intends to expand its presence in the Oracle economy through the development of a new high data availability product offering for Oracle databases. The Company will continue to work closely with IBM on expanding the clustering and resiliency capabilities of iCluster and High Availability Suite such as support for iSeries Cluster Resource Groups (CRGs) and OS/400 V5R1. The Company also expects to devote more resources to the creation of new products and features to leverage its real-time capabilities for enterprise databases through industry-standard XML. In addition, the Company will continue to make general enhancements to its Transformation Server, High Availability Suite and Constellar Hub products.

In the first quarter of the fiscal year ended January 31, 2000, the Company started a program of closely controlling operating expenses, which has contributed to steady growth in quarterly operating profitability. In light of the weakening global economic conditions experienced in early calendar 2001, the Company is continuing to focus on this area.

In common with many software companies, the Company has historically recorded its lowest revenue in the first quarter and its highest revenue in the fourth quarter of its financial year. The Company expects that this characteristic will continue to apply in the foreseeable future and may contribute to the variability of quarterly operating results.

The Company expects that its future operating results will vary due to a number of risks and uncertainties including: the timing and release of new software products and enhanced versions of existing products and their acceptance in the marketplace; the potential negative effect of actual or perceived weakening of global economic conditions on the level of spending by the Company's customers and prospective customers; the seasonality of customers' spending patterns; the timing of receipt of orders from major customers; the strength or weakness of global markets for the Company's products and for computer platforms and databases with which the Company's products operate, in particular the IBM AS/400 platform; the Company's need to maintain and enhance business relationships with channel and other partners who may be affected by changes in the economic climate and competitors' activities.

Management's Responsibility for Financial Reporting

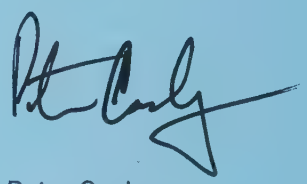
The accompanying Consolidated Financial Statements are the responsibility of management and have been approved by the Board of Directors. Management believes that the Consolidated Financial Statements fairly reflect the form and substance of transactions and that the Consolidated Financial Statements reasonably present the Company's financial position and results of operations in conformity with Canadian generally accepted accounting principles. Management has included in these financial statements amounts based on estimates and judgments that it believes are reasonable under the circumstances. Financial and operating data elsewhere in the annual report are consistent with the information contained in these financial statements.

In fulfilling its responsibilities, management has developed and maintains a system of internal controls. These controls ensure that assets are safeguarded from loss or unauthorized use and that financial records are reliable for the purpose of preparing Consolidated Financial Statements.

Ernst & Young LLP, the independent auditors appointed by the shareholders of the Company, have audited the Consolidated Financial Statements in accordance with Canadian generally accepted auditing standards and they provide an objective, independent review of the fairness of reported operating results and financial position. The Board of Directors of the Company has an Audit Committee which meets with financial management and the independent auditors to review accounting, auditing, internal accounting controls and financial reporting matters.



Nigel Stokes
Chairman, President and
Chief Executive Officer



Peter Cauley
Chief Financial Officer

Auditors' Report

To the Shareholders of
DataMirror Corporation

We have audited the consolidated balance sheets of DataMirror Corporation as at January 31, 2001 and 2000 and the consolidated statements of income (loss), shareholders' equity and cash flows for the years then ended. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with Canadian generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these consolidated financial statements present fairly, in all material respects, the financial position of the Company as at January 31, 2001 and 2000 and the results of its operations and its cash flows for the years then ended in accordance with Canadian generally accepted accounting principles.

Ernst + Young LLP

Chartered Accountants

Toronto, Canada,
March 23, 2001

CONSOLIDATED BALANCE SHEETS

[in thousands of Canadian dollars]

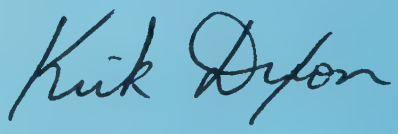
As at January 31	2001	2000
ASSETS		
CURRENT		
Cash and cash equivalents [note 2]	$ 28,205	$ 10,219
Accounts receivable	24,298	15,332
Prepaid expenses	1,731	1,059
Future income taxes [note 12]	1,696	977
TOTAL CURRENT ASSETS	55,930	27,587
Capital assets, net [note 3]	3,953	3,780
Investment tax credits recoverable	2,782	1,629
Investment [note 4]	10,787	3,417
Intangibles [note 5]	14,993	4,639
	$ 88,445	$ 41,052
LIABILITIES AND SHAREHOLDERS' EQUITY		
CURRENT		
Accounts payable and accrued liabilities	$ 5,710	$ 3,683
Deferred revenue	12,311	6,955
Current portion of long-term debt [note 7]	1,426	890
Current portion of capital lease obligations [note 8]	238	703
Income taxes payable	639	–
TOTAL CURRENT LIABILITIES	20,324	12,231
Future income taxes [note 12]	1,505	1,385
Long-term debt [note 7]	1,292	–
Capital lease obligations [note 8]	106	197
TOTAL LIABILITIES	23,227	13,813
Commitments and contingencies [notes 13, 14 and 16]		
SHAREHOLDERS' EQUITY		
Share capital [note 9]	65,583	30,773
Retained earnings (deficit)	133	(3,036)
Cumulative translation adjustment	(498)	(498)
TOTAL SHAREHOLDERS' EQUITY	65,218	27,239
	$ 88,445	$ 41,052

See accompanying notes

On behalf of the Board:



Nigel Stokes
Director



P. Kirk Dixon
Director

CONSOLIDATED STATEMENTS OF INCOME (LOSS)

[in thousands of Canadian dollars, except per share data]

Years ended January 31	2001	2000
REVENUE		
Licence	$ 35,040	$ 29,009
Maintenance	14,065	8,562
Services	7,806	4,603
	56,911	42,174
COST OF REVENUE		
Licence	514	379
Maintenance and services	10,637	7,089
	11,151	7,468
GROSS MARGIN	45,760	34,706
OPERATING EXPENSES		
Selling and marketing	23,815	19,549
Research and development [note 11]	7,742	6,619
General and administration	9,668	7,181
Amortization of intangibles	1,570	1,147
	42,795	34,496
Operating income	2,965	210
Investment income, net [notes 7 and 8]	1,333	286
Gain (loss) from investment in PointBase, Inc. [note 4]		
Dilution gain	6,186	2,327
Equity loss	(4,709)	(3,620)
Income (loss) before income tax expense	5,775	(797)
Provision for income taxes [note 12]		
Current	877	356
Future	190	276
	1,067	632
NET INCOME (LOSS) FOR THE YEAR	$ 4,708	$ (1,429)
EARNINGS (loss) PER SHARE		
Basic	$ 0.41	$ (0.14)
Diluted	$ 0.41	$ (0.14)
WEIGHTED AVERAGE NUMBER OF SHARES [000's]		
Basic	11,362	10,191
Diluted	12,543	10,191

See accompanying notes

CONSOLIDATED STATEMENTS OF SHAREHOLDERS' EQUITY

[in thousands of Canadian dollars]

Years ended January 31	Common Shares		Retained earnings (deficit)	Cumulative translation adjustment	Total shareholders' equity
	Shares [000's]	Amount			
BALANCE, JANUARY 31, 1999	10,303	$ 30,891	$ (790)	$ (498)	$ 29,603
Net loss for the year	–	–	(1,429)	–	(1,429)
Exercise of stock options [note 10]	108	534	–	–	534
Exercise of warrants	40	80	–	–	80
Repurchase of common shares [note 9[c]]	(244)	(732)	(817)	–	(1,549)
BALANCE, JANUARY 31, 2000	10,207	30,773	(3,036)	(498)	27,239
Net income for the year	–	–	4,708	–	4,708
Issuance of common shares [note 9[b]]	1,305	34,151	–	–	34,151
Exercise of stock options [note 10]	209	1,190	–	–	1,190
Repurchase of common shares [note 9[c]]	(97)	(531)	(1,539)	–	(2,070)
BALANCE, JANUARY 31, 2001	11,624	$ 65,583	$ 133	$ (498)	$ 65,218

See accompanying notes

CONSOLIDATED STATEMENTS OF CASH FLOWS

[in thousands of Canadian dollars]

Years ended January 31	2001	2000
OPERATING ACTIVITIES		
Net income (loss) for the year	$ 4,708	$ (1,429)
Add (deduct) items not affecting cash		
Amortization of capital assets	1,729	1,657
Amortization of intangibles	1,570	1,147
Future income taxes	190	276
Dilution gain from investment in PointBase, Inc.	(6,186)	(2,327)
Equity loss from investment in PointBase, Inc.	4,709	3,620
Non-cash foreign exchange loss	–	(273)
Non-cash interest expense	48	
	6,786	2,671
Net change in non-cash working capital balances related to operations	(3,325)	(2,157)
CASH PROVIDED BY OPERATING ACTIVITIES	3,461	514
INVESTING ACTIVITIES		
Capital asset additions	(1,134)	(956)
Acquisition of intangibles	–	(224)
Acquisition of business, net of cash acquired of $368 [note 16]	(8,940)	–
Purchase of investment [note 4]	(5,893)	(1,800)
CASH USED IN INVESTING ACTIVITIES	(15,967)	(2,980)
FINANCING ACTIVITIES		
Repayment of long-term liabilities	(890)	(1,042)
Capital lease payments	(754)	(1,145)
Issuance of share capital, net of issue costs of $2,215	34,206	614
Repurchase of share capital	(2,070)	(1,549)
CASH PROVIDED BY (USED IN) FINANCING ACTIVITIES	30,492	(3,122)
INCREASE (DECREASE) IN CASH AND EQUIVALENTS DURING THE YEAR	17,986	(5,588)
Cash and cash equivalents, beginning of year	10,219	15,807
CASH AND CASH EQUIVALENTS, END OF YEAR	$ 28,205	$ 10,219
SUPPLEMENTAL CASH FLOW INFORMATION		
Interest paid	$ 97	$ 169

See accompanying notes

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(Tabular amounts in thousands of Canadian dollars, except per share data)

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Generally accepted accounting principles

The consolidated financial statements of DataMirror Corporation [the "Company"] have been prepared in accordance with Canadian generally accepted accounting principles ("Canadian GAAP"), which are in all material respects in accordance with accounting principles generally accepted in The United States ("US GAAP"), except as disclosed in note 17. The Company is incorporated under the laws of Ontario.

Basis of consolidation

The consolidated financial statements include the accounts of the Company together with its wholly-owned subsidiary companies. All significant inter-company transactions and balances have been eliminated upon consolidation. The purchase method is used to account for acquisitions and the results of operations of subsidiaries are included from the dates of their respective acquisitions.

Use of estimates

The preparation of these consolidated financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent liabilities at the date of these consolidated financial statements and the reported amounts of revenue and expenses during the reporting years. Actual amounts may vary from the current estimates.

Cash and cash equivalents

Cash and cash equivalents include highly liquid investments having maturity dates of up to three months when purchased and are valued at cost, which approximates their fair value.

Capital assets

Capital assets are recorded at cost less accumulated amortization and related investment tax credits. Amortization is provided over the estimated useful life of the related asset. Computer equipment and software are amortized on a declining balance basis at rates varying from 30% to 50%. Furniture and equipment are amortized on a declining balance basis at 20%. Leasehold improvements are amortized on a straight line basis over the term of the related lease.

Leases

Leases are classified as either capital or operating. Those leases which transfer substantially all the benefits and risks of ownership of property to the Company are accounted for as capital leases. The capitalized lease obligation reflects the present value of future lease payments, discounted at the appropriate interest rate and is reduced by rental payments net of imputed interest. Assets under capital leases are amortized based on the useful life of the asset. All other leases are accounted for as operating with rental payments being expensed as incurred.

Investment

The investment consists of the Company's investment in PointBase, Inc. ["PointBase"] and is recorded using the equity method of accounting since February 18, 1999 when the Company increased its investment in PointBase and began to exert significant influence.

Intangibles

Intangibles are comprised of goodwill and acquired technology.

Goodwill is recorded at cost and is amortized on a straight-line basis over five to ten years. Goodwill is evaluated each reporting period to determine if there were events or circumstances which would indicate a possible inability to recover the carrying amount. Such an evaluation is based on various analyses including profitability projections and undiscounted cash flows.

Acquired technology is recorded at cost. Amortization is provided for on a straight-line basis over three to five years.

Earnings per share

Basic earnings per share are calculated on net earnings using the weighted average number of shares outstanding. Fully diluted earnings per share are calculated on the weighted average number of shares that would have been outstanding during the period had all the dilutive stock options had been exercised into common shares of the company at the beginning of the period, or the date of the issuance, if later. The earnings applicable to the common shares are increased by the amount of interest, net of applicable taxes that would have been earned on funds received due to the exercise of the stock options.

Stock-based compensation plans

The Company has two stock-based compensation plans which are described in note 10. No compensation expense is recognized for these plans when stock options are issued to directors, officers and employees. Any consideration paid on the exercise of stock options is credited to share capital.

Research and development costs

Research costs are expensed as incurred. Development costs are expensed as incurred unless a project meets the criteria under Canadian generally accepted accounting principles for deferral and amortization. The Company has not deferred any such development costs to date. Research and development costs are reduced by related investment tax credits.

Government assistance

Government assistance, consisting of investment and other tax credits, is recorded using the cost reduction method. Such government assistance is recorded when the qualifying expenditure is made and where there is reasonable assurance that investment and other tax credits will be realized.

Foreign currency translation

The Company's subsidiaries are considered to be integrated operations. Accordingly, the temporal method is used to translate the foreign operations of the subsidiary companies. Under this method, monetary assets and liabilities denominated in foreign currencies are translated at exchange rates prevailing at the consolidated balance sheet dates. Non-monetary assets and liabilities and amortization are translated at historical exchange rates. Revenue and expenses, excluding amortization, are translated at average rates prevailing during the year. The resulting net gain or loss on translation is included in the consolidated statements of loss in the year incurred.

Foreign exchange gains and losses on transactions during the year are reflected in income, except for gains and losses on foreign exchange forward contracts used to hedge specific future commitments in foreign currencies [note 14]. Gains or losses on these contracts are accounted for as a component of the related hedged transaction. Unrealized foreign exchange gains or losses on foreign denominated long-term debt are deferred and amortized over the remaining term of the debt.

Revenue recognition and deferred revenue

The Company's revenues are generated from the sale of software licences, software maintenance and support fees and services.

Revenue is recognized in accordance with Statement of Position ("SOP") 97-2, "Software Revenue Recognition" issued by the American Institute of Certified Public Accountants ("AICPA") in October 1997 and amended by SOP 98-4 issued in March 1998. Software licence revenue is recognized when persuasive evidence of an arrangement exists, the related products are shipped, there are no significant uncertainties surrounding product acceptance, the fees are fixed and determinable and collection is considered probable. Revenue from software maintenance and support agreements is recognized on a straight-line basis over the term of the related agreements. Revenue from services is comprised mainly of training and installation fees and is recognized at the time the services are performed.

Deferred revenue is comprised of software maintenance and support fees and consulting revenue for which services have yet to be provided.

Income taxes

In fiscal 2001, the Company accounts for income taxes using the liability method of tax allocation [note 12]. Under the liability method of tax allocation, future tax assets and liabilities are determined based on the differences between financial reporting and tax bases of assets and liabilities and are measured using the substantively enacted tax rates and laws that will be in effect when the differences are expected to reverse. The Company provides a valuation allowance on net future tax assets when it is more likely than not that such assets will not be realized.

In fiscal 2000 and prior years, the Company followed the deferral method of accounting for income taxes. Deferred income taxes result from claiming deductions for income tax purposes in amounts that differ from those recorded in the accounts.

2. CASH AND CASH EQUIVALENTS

Cash and cash equivalents consist of the following:

January 31,	2001	2000
Cash	$ 7,275	$ 2,770
Commercial paper	20,930	–
Bankers' acceptances	–	7,449
	$ 28,205	$ 10,219

The commercial paper (2000 - banker's acceptances) bears interest at rates of approximately 5.6% (2000 - 5.1%) and expiry dates extending up to one month (2000 - two months).

3. CAPITAL ASSETS

Capital assets consist of the following:

January 31,	2001	2000
Computer equipment and software	$ 7,026	$ 5,839
Furniture and equipment	1,917	1,513
Leasehold improvements	1,003	707
	9,946	8,059
Less accumulated amortization	5,993	4,279
	$ 3,953	$ 3,780

Capital assets include assets under capital leases of approximately $997,000 [accumulated amortization of $585,000] at January 31, 2001 and $2,241,000 [accumulated amortization of $1,133,000] at January 31, 2000.

During 2001, capital assets were acquired at an aggregate cost of $1,319,000 [2000 - $1,195,000] of which $185,000 [2000 - $239,000] were acquired by means of capital leases and excluded from the consolidated statement of cash flows.

4. INVESTMENT

The investment consists of the Company's investment in PointBase, the details of which are as follows:

January 31,	2001	2000
Investment, at cost	$ 10,603	$ 4,710
Cumulative dilution gain	8,513	2,327
Cumulative equity loss	(8,329)	(3,620)
	$ 10,787	$ 3,417

In June and August 2000, PointBase engaged in an additional round of financing in which the Company invested an additional $5,893,000. However, as a result of the participation of other parties in these investment rounds, the Company's approximate ownership was reduced and the Company recognized a dilution gain of $6,186,000, which represents the increase in the Company's pro-rata share of the net assets of PointBase. The financings also decreased the Company's approximate ownership percentage of PointBase from 29% to 25%.

In September and October 1999, Pointbase engaged in additional rounds of financing in which the Company did not participate. As a result of these transactions, the Company recognized a dilution gain of $2,327,00 which represents the increase in the Company's pro rata share of the net assets of Pointbase. The financing also decreased the Company's approximate ownership percentage of Pointbase from 42% to 29%.

5. INTANGIBLES

Intangibles consist of the following:

January 31,	2001			2000
	Cost	Accumulated amortization	Net book value	Net book value
Goodwill	$ 5,203	$ 1,564	$ 3,639	$ 4,162
Acquired technology	13,720	2,366	11,354	477
	$ 18,923	$ 3,930	$ 14,993	$ 4,639

6. BANK CREDIT FACILITIES

At January 31, 2001, the Company had available credit facilities of $3,000,000 bearing interest at the prime rate plus 0.5% and £150,000 [$329,000] bearing interest at the prime rate in the United Kingdom plus 3.00%. Under a general security agreement and a source code escrow agreement, all of the Company's assets, including the source code for the Company's software, are pledged as collateral for these loan facilities. As at January 31, 2001 and 2000, no amounts have been drawn against these facilities.

7. LONG-TERM DEBT

Long-term debt consists of the following:

January 31,	2001	2000
Loan payable, repayable in two annual payments of U.S. $1,000,000 due on September 29, 2000 and 2001	$ 2,718	$ –
Note payable, repayable in two annual payments of 1,200,000 DM due on August 21, 1999 and 2000	–	861
Bank loan, repayable in monthly principal payments of $5,895 until June 2000 plus interest at 8.0%	–	29
	2,718	890
Less current portion	1,426	890
	$ 1,292	$ –

The loan payable arose upon the acquisition of the assets of Constellar Corporation ["Constellar"] by the Company [note 16] and is unsecured and non-interest bearing. As the loan payable is non-interest bearing, it is shown at a reduced value to reflect the imputed interest at a rate of 8%, representing the Company's approximate borrowing rate at the date of acquisition. The imputed interest will be charged to interest expense on long-term debt over the term of the loan. Included in investment income, net for the year, is interest expense on long-term debt of $48,000 [2000 - $5,000].

8. CAPITAL LEASE OBLIGATIONS

Minimum lease payments with imputed interest rates ranging from 6.9% to 8.4% and expiry dates to April 30, 2004 are as follows:

January 31,	2001	2000
2001	$ –	$ 744
2002	255	185
2003	88	18
2004	23	–
	366	947
Less amount representing imputed interest	22	47
	344	900
Less current portion	238	703
	$ 106	$ 197

Included in investment income, net for the year, is interest expense relating to capital lease obligations of $51,000 [2000 - $95,000].

9. SHARE CAPITAL

[a] Authorized

Unlimited number of common and preferred shares.

[b] Share issuance

On April 6, 2000, the Company issued 1,305,000 common shares at a purchase price per common share of $27.00 for gross proceeds of $35,235,000. The Company incurred total costs of approximately $2,219,000 relating to this share issuance, which have been offset against share capital, net of a future tax benefit of approximately $1,135,000.

[c] Shares purchased for cancellation

Under a normal course issuer bid ["Bid"] effective September 21, 1999, the Company indicated its intention to purchase up to 510,403 of its outstanding common shares. This Bid expired on September 20, 2000. Under a new Bid, effective September 21, 2000, the Company indicated its further intention to additionally purchase up to 582,355 of its outstanding common shares. This Bid expires on September 20, 2001. During the year ended January 31, 2001, the Company purchased for cancellation 96,700 common shares [2000 – 244,161] for cash consideration of $2,070,000 [2000 - $1,549,000]. As a result, stated capital was reduced by $531,000 [2000 - $732,000] and retained earnings were reduced by $1,539,000 [2000 - $817,000].

10. STOCK-BASED COMPENSATION PLANS

At January 31, 2001, the Company has two stock-based compensation plans for the purpose of providing shares to directors, officers and employees. The first plan was established on December 12, 1996. Options under this plan generally vest over four years from the date of grant and expire five years from the date of grant. The second plan was established on June 14, 2000 with similar attributes. The number of common shares reserved for issuance under the first and second plan are 1,754,000 and 500,000 respectively. Also, an option plan that was established on October 31, 1996 expired on October 1, 2000 with all options issued thereunder either exercised or cancelled.

A summary of the status of the Company's stock-based compensation plans as at January 31, 2001 and 2000 and changes during the years then ended is presented below:

January 31,	2001		2000	
	Options #	Weighted average exercise price	Options #	Weighted average exercise price
OUTSTANDING, BEGINNING OF YEAR	1,076,836	$ 7.39	923,641	$ 7.78
Granted	622,833	18.22	641,625	6.67
Exercised	(208,566)	5.71	(108,100)	4.94
Expired	(309,977)	13.34	(380,330)	7.95
OUTSTANDING, END OF YEAR	1,181,126	$ 11.84	1,076,836	$ 7.39
Options exercisable at year end	420,940		413,824	

	Options Outstanding			Options Exercisable	
Range of exercise prices	Outstanding at January 31, 2001 #	Weighted average remaining contractual life [in years]	Weighted average exercise price	Currently vested and exercisable at January 31, 2001 #	Weighted average exercise price
4.00 – 6.00	287,237	3.5	$ 4.78	168,874	$ 4.95
6.01 – 9.00	127,876	4.2	7.00	60,088	7.25
9.01 – 13.50	289,088	3.9	11.19	152,310	11.08
13.51 – 20.25	304,262	5.6	15.37	39,668	13.55
20.26 – 27.97	172,663	5.7	22.01	–	–
4.00 – 27.97	1,181,126		$ 11.84	420,940	$ 8.31

11. GOVERNMENT ASSISTANCE

The Company applies for investment tax credits under the Income Tax Act (Canada) relating to amounts expended on scientific research and development. During the year, $700,000 [2000 - $147,000] of investment tax credits were applied to reduce operating expenses. The amount of investment tax credits recorded represents management's best estimate based on its interpretation of current legislation. However, the Canada Customs and Revenue Agency has not yet assessed all these claims and, therefore the amount ultimately received could be materially different than the amount recorded.

12. INCOME TAXES

Effective February 1, 2000, the Company retroactively adopted the new recommendations of The Canadian Institute of Chartered Accountants with respect to accounting for income taxes. As permitted under the new rules, prior years' financial statements have not been restated. The cumulative effect on the opening deficit as of February 1, 2000 of adopting the recommendations was not material on current of prior periods.

Significant components of the Company's future tax assets and liabilities are as follows:

January 31,	2001	2000
FUTURE INCOME TAX ASSETS		
CURRENT		
Deferred revenue	$ 1,513	$ 977
Other	183	23
	1,696	1,000
Valuation allowance	–	(23)
	$ 1,696	$ 977
LONG TERM		
Tax benefit of loss carryforwards and tax credits	$ 1,299	$ 904
Share issue costs	770	–
Scientific research and development deductions	196	–
Equity investment in PointBase	–	563
Other	195	–
	2,460	1,467
Valuation allowance	(1,040)	(1,112)
	$ 1,420	$ 355
FUTURE INCOME TAX LIABILITIES		
CURRENT	$ –	$ –
LONG TERM		
Tax depreciation in excess of book depreciation	$ 1,361	$ 557
Scientific research investments tax credits	750	749
Equity investment in PointBase	66	–
Other	748	434
	$ 2,925	$ 1,740

The following table reconciles the income tax expense computed at the rates specified in Canadian tax statutes to the reported income tax expense:

January 31,	2001	2000
Income tax recovery at combined Canadian federal and provincial income tax rate of 43.80% [2000 - 44.60%]	$ 2,529	$ (355)
Effect of foreign tax rate differences	(591)	–
Benefit of foreign tax losses not previously recognized	(897)	–
Items not deductible for income tax purposes	134	79
Non-taxable gain (loss) from investment in PointBase	(647)	577
Foreign tax losses not tax effected	962	667
Manufacturing and processing profits deduction	(65)	–
Ontario research and development incentives	(99)	(336)
Other	(260)	–
INCOME TAX EXPENSE	$ 1,067	$ 632

The Company has foreign non-capital loss carryforwards of approximately $3,758,000, of which $3,282,000 have no expiry date and may be applied against future taxable income in those tax jurisdictions for an indefinite period. The remaining $476,000 of these losses expire in 2004 and 2005. The potential benefit of these accumulated losses has not been recognized in these consolidated financial statements.

13. LEASE COMMITMENTS

The Company has entered into agreements to lease office facilities and equipment for which the total minimum annual lease payments are approximately as follows:

2002	$ 1,948,000
2003	1,112,000
2004	774,000
2005	287,000
2006	58,000

14. FINANCIAL INSTRUMENTS AND HEDGING ACTIVITIES

Hedging activities

During the year, the Company entered into forward currency contracts to sell U.S. dollars for Canadian dollars to hedge the future collection of its accounts receivable denominated in U.S. dollars. At year end, U.S. $5,250,000 of forward currency contracts were outstanding at exchange rates of approximately 1.51, maturing within sixty days of the financial year end. These contracts hedge substantially all of the Company's U.S. dollar based accounts receivable. The Company does not enter into foreign exchange contracts for speculative purposes.

Current financial assets and liabilities

Due to the short period to maturity of these financial instruments, the carrying values as presented in the consolidated balance sheets are reasonable estimates of fair value.

Investment in PointBase, Inc.

As PointBase is a privately owned company, fair value information is not readily available. However, based on recent financing transactions, management believes the market value to be in excess of the carrying value of the investment.

Long-term debt

The fair values of the Company's long-term debt, based on current rates for liabilities with similar terms and maturities, are not materially different from their carrying values.

Risk management

Credit risk related to the Company's trade receivables is minimized due to its large customer base, geographical distribution and diversification of operations.

In addition to Canada and the United States, the Company also operates in the United Kingdom Germany and other European countries and is therefore exposed to market risks related to foreign currently fluctuations between these currencies.

15. SEGMENTED INFORMATION

The Company operates in only one industry, that being the business of developing and marketing computer software products. The Company has two reportable segments, North America, which includes the Company's newly incorporated Asia Pacific operations, and Europe, based on the geographic location of its operations. The accounting policies followed by these segments are the same as those described in the summary of significant accounting policies. The Company accounts for intersegment sales at fair value.

The Company's reportable segments are strategic business units. They are managed separately because each reportable segment operates in different economic marketplaces and therefore, requires different investing and marketing strategies. The Company evaluates segment performance based on profit or loss from operations before investment income and income taxes.

The following table presents certain information with respect to the reportable segments described above:

January31,	2001	2000
REVENUE		
North America		
Customers	$ 33,672	$ 23,514
Intersegment	5,821	4,706
	39,493	28,220
Europe		
Customers	23,239	18,660
Elimination of intersegment revenue	(5,821)	(4,706)
CONSOLIDATED REVENUE	$ 56,911	$ 42,174
OPERATING INCOME (LOSS)		
North America	$ (130)	$ 1,688
Europe	3,095	(1,478)
CONSOLIDATED OPERATING INCOME	$ 2,965	$ 210
AMORTIZATION		
North America	$ 2,510	$ 1,996
Europe	789	808
CONSOLIDATED AMORTIZATION	$ 3,299	$ 2,804
CAPITAL ASSET ADDITIONS		
North America	$ 1,033	$ 867
Europe	286	328
CONSOLIDATED CAPITAL ASSET ADDITIONS	$ 1,319	$ 1,195
IDENTIFIABLE ASSETS		
North America	$ 54,965	$ 25,714
Europe	18,487	10,699
	73,452	36,413
Intangibles	14,993	4,639
CONSOLIDATED ASSETS	$ 88,445	$ 41,052

Summaries of revenue, segmented according to the customers' country of residence, and of capital assets and intangibles, segmented according to the country in which the assets are located, are as follows:

January 31,	2001	2000
REVENUE		
Canada	$ 1,937	$ 2,396
United States	28,464	19,257
United Kingdom	15,255	8,603
Germany	3,937	5,593
Other	7,318	6,325
	$ 56,911	$ 42,174
CAPITAL AND INTANGIBLE ASSETS		
Canada	$ 14,569	$ 4,110
Germany	3,312	3,803
Other	1,065	506
	$ 18,946	$ 8,419

16. ACQUISITIONS

Effective September 1, 2000, the Company acquired certain assets and liabilities of Constellar, a company engaged in the business of developing and marketing computer software products. The acquisition has been accounted for under the purchase method of accounting. Consequently, the results of operations of Constellar are included in these consolidated financial statements from the date of acquisition.

The purchase transaction is summarized as follows:

ASSETS ACQUIRED	
Cash	$ 368
Other current assets	3,956
Capital assets	570
Technology	11,526
	16,420
Current liabilities assumed	(4,442)
Net assets acquired	$ 11,978
CONSIDERATION	
Cash	$ 9,308
Vendor take-back debt [note 7]	2,670
	$ 11,978

As part of the purchase agreement, further cash payments of up to U.S. $3,000,000 are payable contingent on certain revenue targets being generated from the acquired technology during the three year period ending August 31, 2003. At January 31, 2001, $398,000 of contingent consideration had been earned, and therefore this amount has been accrued in these consolidated financial statements. The accrual has been added to the value of the technology acquired, bringing the total value of technology acquired to $11,924,000. Any future contingent consideration will be recognized when earned and added to the value of technology acquired at that time.

17. UNITED STATES GENERALLY ACCEPTED ACCOUNTING PRINCIPLES

The consolidated financial statements of the Company have been prepared in accordance with Canadian GAAP which differ in certain material respects from those applicable in the United States.

The material differences as they apply to the Company's consolidated financial statements are as follows:

[a] Balance sheet adjustments

January 31,	2001	2000
INVESTMENT		
Balance under Canadian GAAP	$ 10,787	$ 3,417
Cumulative equity loss recorded for Canadian GAAP purposes [i]	8,329	3,620
Dilution gain recognized for Canadian GAAP purposes [ii]	(8,513)	(2,327)
Cumulative equity loss recorded for U.S. GAAP purposes [i]	(9,993)	(5,374)
Increase in equity investment for U.S. GAAP purposes [ii]	10,408	2,820
BALANCE UNDER U.S. GAAP	$ 11,018	$ 2,156
INTANGIBLES		
Balance under Canadian GAAP	$ 14,993	$ 4,639
Adjustment for recognition of tax loss carryforwards [iii]	(128)	(128)
BALANCE UNDER U.S. GAAP	$ 14,865	$ 4,511
RETAINED EARNINGS (DEFICIT)		
Balance under Canadian GAAP	$ 133	$ (3,036)
Current year's net income adjustments	(6,095)	(2,289)
Cumulative prior year's net income adjustments	(4,081)	(1,792)
Adjustment for recognition of tax loss carryforwards [iii]	128	128
BALANCE UNDER U.S. GAAP	$ (9,915)	$ (6,989)

[i] Under U.S. GAAP, specifically the provisions of Accounting Principles Board Opinion ["APB"] No. 18 "Equity Accounted Investments", when an investment, previously accounted for on a cost basis, qualifies for use of the equity method, the investment, results of operations and retained earnings of the investor should be retroactively adjusted.

[ii] Under U.S. GAAP, additional equity raised by an investee is recognized as an equity transaction if the investee is a newly-formed, non-operating entity; a research and development, start-up or development stage company; an entity whose ability to continue in existence is in question; or other similar circumstances. The determination of the gain resulting from the dilution of the Company's equity interest is different under Canadian and U.S. GAAP due to the differences in the carrying value of the investment account.

[iii] Under U.S. GAAP, the realization of the benefit associated with utilizing tax losses which existed at the time of an acquisition but which were not recognized at that time, is reflected as a reduction of goodwill relating to the acquisition in the year upon which the Company determines that such realization is more likely than not. Under Canadian GAAP, prior to the adoption of the liability method in fiscal 2001, such benefit is recorded as a reduction of the income tax provision in the period of utilization.

[b] The components of shareholders' equity under U.S. GAAP are as follows:

January 31,	2001	2000
Share capital	$ 65,583	$ 30,773
Increase in equity investment	10,408	2,820
Accumulated other comprehensive loss	(498)	(498)
Deficit	(9,915)	(6,989)
BALANCE UNDER U.S. GAAP	$ 65,578	$ 26,106

[c] Reconciliation of net income (loss) under Canadian and U.S. GAAP:

January 31,	2001	2000
Net income (loss) under Canadian GAAP	$ 4,708	$ (1,429)
Dilution gain recognized for Canadian GAAP purposes	(6,186)	(2,327)
Equity loss recorded for Canadian GAAP purposes	4,709	3,620
Equity loss recorded for U.S. GAAP purposes [i]	(4,619)	(3,582)
NET LOSS AND COMPREHENSIVE LOSS, UNDER U.S. GAAP	$ (1,388)	$ (3,718)
NET LOSS PER SHARE UNDER U.S. GAAP [ii]	$ (0.12)	$ (0.36)
WEIGHTED AVERAGE NUMBER OF COMMON SHARES OUTSTANDING UNDER U.S. GAAP [000's]	11,362	10,191

[i] Included in the equity loss recorded for U.S. GAAP purposes is an amount for acquired in-process research and development. Under U.S. GAAP, specifically Statement of Financial Accounting Standard ["SFAS"] No. 2 "Accounting for Research and Development Costs", acquired in-process research and development having no alternative future use must be written off at the time of acquisition. The adjustment represents the value of the acquired in-process research and development capitalized under Canadian GAAP.

[ii] In accordance with SFAS No. 128 "Earnings per Share", basic earnings per share is computed by dividing income available to common shareholders by the weighted average number of common shares outstanding for the reporting period. Diluted earnings per share reflect the dilution that would occur if outstanding stock options and warrants were exercised or converted into common shares using the treasury stock method. The computation of diluted earnings per share does not include stock options and warrants with dilutive potential that would have an anti-dilutive effect on earnings per share. The inclusion of the Company's stock options in the computation of diluted earnings per share would have an anti-dilutive effect on earnings per share and are therefore excluded from the computation. Consequently, there is no difference between basic earnings per share and diluted earnings per share.

[iii] The Company accounts for its stock-based compensation plan for certain participants in its employee stock option plan under the provisions of APB 25, "Accounting for Stock Issued to Employees" which results in the recording of no expense in the Company's circumstances.

[d] Recent accounting developments

The Financial Accounting Standards Board has issued Statement No. 133 "Accounting for Derivative Instruments and Hedging Activities", as amended by Statement No. 137, which is required to be adopted in years beginning after June 15, 2000. The Company has determined that the adoption of SFAS 133 will not have a material effect on the consolidated financial statements.

18. COMPARATIVE CONSOLIDATED FINANCIAL STATEMENTS

The comparative consolidated financial statements have been reclassified from statements previously presented to conform to the presentation of the 2001 consolidated financial statements.

SHAREHOLDER INFORMATION

BOARD OF DIRECTORS

P. Kirk Dixon
Secretary and Executive Vice President,
Global Operations

Donald L. Lenz [1] [3]
President, SELDM Ltd.

Matthew A. Ocko [2] [3]
Partner, VantagePoint Venture Partners and
Managing Director, Archimedes Capital LLC

Bryan E. Plug [1] [2]
Chief Executive Officer, Kintana, Inc.

Keith Powell
Principal, Keith Powell Consulting Inc.

Nigel W. Stokes [3]
Chairman, President and
Chief Executive Officer

Donald Woodley [1]
President, The Fifth Line Enterprise

E. Herman Wallenburg
Chief Scientist

[1] Member of the Audit Committee
[2] Member of the Compensation Committee
[3] Member of the Corporate Governance Committee

EXECUTIVE OFFICERS

Nigel W. Stokes
Chairman, President and
Chief Executive Officer

P. Kirk Dixon
Secretary and Executive Vice President,
Global Operations

E. Herman Wallenburg
Chief Scientist

Peter Cauley
Chief Financial Officer

John Vandermay
Vice President, Development

Angelo Lai
Vice President, Asia Pacific

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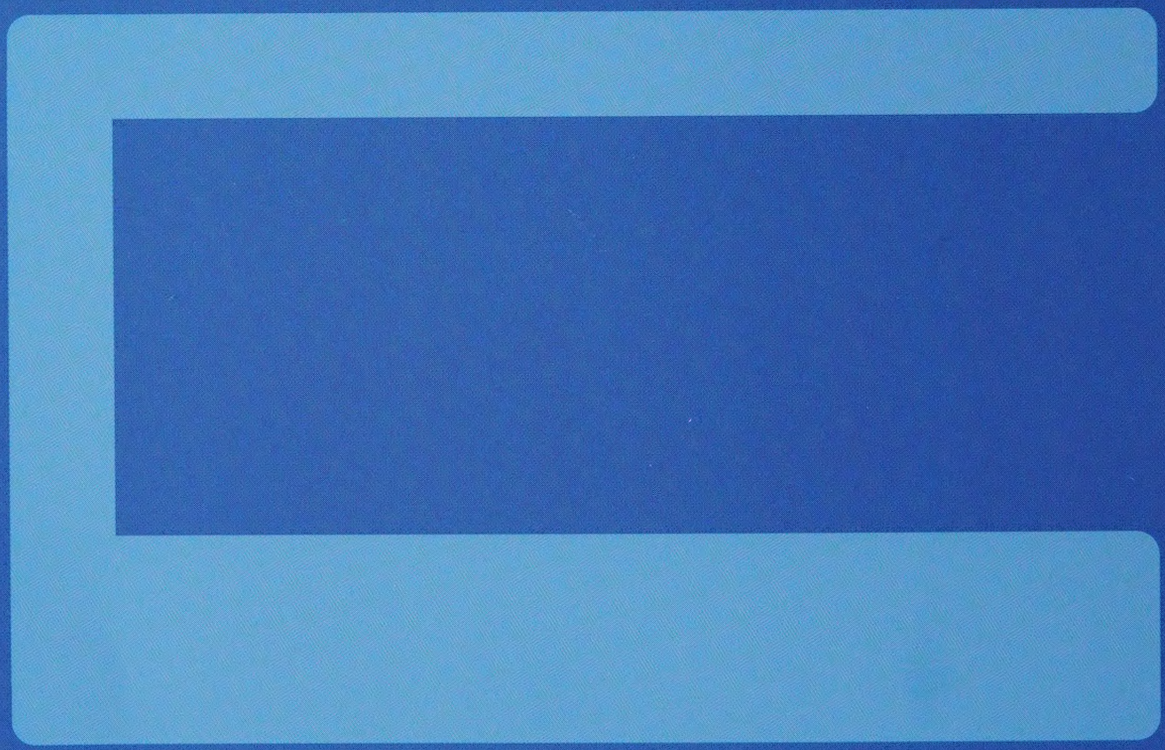
COMMON SHARES

The common shares of the Company are listed on the Toronto Stock Exchange under the symbol DMC and on the NASDAQ National Market under the symbol DMCX.

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